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MEMORANDUM

DATE: **June 29, 2005**

FROM: **Alex S. LaBeau, CEO**

TO: **Property Tax Interim Committee**

RE: **Idaho Property Tax Legislation**

Thank you for your invitation to discuss property taxes with the Property Tax Interim Committee. The Idaho Association of REALTORS® (IAR) appreciates the chance to share our comments and positions regarding property tax legislation, and stands ready to assist you in answering any questions you may have of us.

IAR legislative positions are driven by determinations made by our Legislative Committee based on our adopted Statement of Policy. IAR's Statement of Policy specifically states our opposition to expansion of the 50/50 homeowner's exemption, our support for the circuit breaker program, and calls for all properties to be assessed at fair market value. Essentially, IAR does not support legislation that creates a tax shift from one type of property to another. IAR does support property tax relief if applied in a fair and equitable manner across the board.

Below is some information regarding current IAR positions, as well as other alternatives that may deserve further discussion.

With regard to our positions and analysis of legislation introduced last session, the IAR provides the following information.

- HB 109 would have allowed a home occupied by a resident over the age of 65 to receive a deferment of annual tax increases above two percent until the resident moved out, died or rented the residence. At that time the deferred taxes would become due and payable within six months. The deferred taxes would be a lien upon the premises. IAR opposed HB 109. Under the current structure HB 109 would have created a large shift in the tax burden at the local level. IAR members also raised significant concerns regarding the concept of creating a mandatory lien on a piece of property with respect to the potential sale of the property. In most cases the lien would need to be satisfied *prior* to the property being transferred. This would create a tremendous burden for the seller and likely limit the market of available buyers considerably. In addition, it was felt that private sector options like reverse mortgages are already available to handle these situations.

- HB 124 would have granted an exemption from having to pay property taxes on the first $150,000 of assessed value on a primary residence for persons over the age of 70. The individual seeking the exemption also would have been required to prove they had paid property taxes continuously in Idaho for the preceding 10 years. IAR opposed HB 124. This legislation essentially increases the Homeowner's Exemption for people over 70 and creates a shift to other taxpayers. Age limits and residency requirements also move us away from treating every piece of residential property equally.

- HB 241 would have increased the homeowner's exemption value limit from $50,000 to $70,000, while retaining the 50% of market value cap. The exemption also included up to 20% of the residential land value. Land value is currently not included in any calculations. IAR opposed HB 241 as an expansion of the current homeowner's exemption tax shift. (Note: According to the Tax Commission, in urban areas owner occupied residential home property taxes would increase 45.8% with the elimination of the homeowner's exemption, while commercial property taxes would decrease 16.7% - a clear indicator of the extent of the tax shift created by the exemption.)

- HB 242 would have moved the cap on the current homeowner's exemption from $50,000 to $75,000. IAR opposed HB 242 for reasons stated above.

- HB 243 would have made three major changes to statute. First, it would retain the Homeowner's Exemption for all owner-occupied residences at the present $50,000 level but expand its applicability to the land. Second it would authorize an increase in the homeowner's Exemption to $75,000 for all persons 65 years of age whose income is less than $33,090 per year. Third, this legislation would make a $75,000 Homeowner's Exemption available to special categories of people of any age, who have an annual income of no more than $33,090, including: Widow(er), Blind, former Prisoner of War/Hostage, Veteran with a 30 percent or more of service connected disability or a Disabled Person recognized by the Social Security Administration, Railroad Retirement Board or Federal Civil Service. IAR opposed HB 243. Once again the proposed legislation creates a significant shift in the tax burden.

- HB 275 would have provided property tax relief for homeowners who have lived in their home for ten continuous years or more. The assessed value of their home would be frozen as of January 1st of the year they applied and qualified. They would continue to pay taxes on the frozen assessed value, at current levy rates, as long as they remained in the home. Taxes would continue to be calculated as if there was no freeze, and the deferred taxes would be a lien on the property. IAR opposed HB 275 for the same reasons outlined above with respect to HB 109. Placing a mandatory lien on a piece of property ultimately creates more problems for the owner.

- HB 279 would have deleted the value of new construction from the three percent growth factor for local governments. Currently local government budgets (the drivers for property tax collections) are allowed to grow at three percent plus the value of new construction each year. HB 279 would mean local governments would be capped at three percent no matter what their growth level is. IAR chose to monitor HB 279. This is an interesting concept, and the consequences to local government may deserve more exploration. One of the main issues surrounding this option would be the differing effect on various areas of the state. High growth areas with relatively low mill rates would probably be the most effected. In addition, some areas with relatively low growth and large school debt may not see the effect. It is interesting to note, however, that the Tax Commission's calculation of the potential increase for '05 property taxes statewide for the 3% cap is $18 million, while the potential increase due to new construction is $20 million.

Although it was not on your list, IAR also took a position regarding HB 166.

- HB 166 would have increased the income threshold for the determination of circuit breaker eligibility to $25,000 per person. The current maximum income allowable for access to the program is $21,580. IAR supported HB 166. IAR supports the extension and modification of the circuit breaker program as the most effective way to provide relief under the current tax structure.

At this time IAR does not believe any perceived inequity within Idaho's property tax system can be fixed by simply ratcheting up the homeowner's exemption. If a problem exists it appears to be structural in nature and should be addressed as such.

IAR would suggest the Interim Committee explore other alternatives that may result in across the board reductions.

Based on our Statement of Policy, IAR could support efforts in some format in the following areas:

- **Indexing of the Circuit Breaker:** IAR has had discussions with some members of the Revenue and Taxation Committee regarding the possibility of indexing the Circuit Breaker program to reflect housing prices in a given community – rather than the current "flat rate" approach. The National Association of REALTORS® keeps track of what is called the "Housing Affordability Index" (see attached formula for details) which outlines a person's ability to afford a home in each state. The formula contrasts housing prices with family incomes. A vision for Idaho might be a Circuit Breaker program which is indexed to an Idaho Housing Affordability Index.
- **Promotion of the Circuit Breaker:** In 2004 more than 26,000 people accessed the Circuit Breaker program for an average reduction in taxes of $565. The maximum allowable is $1200. In Kootenai County 2,360 people utilized the Circuit Breaker for an average benefit of $621. (Only 33 more people applied in 2004 than in 2003 in Kootenai County.) The State Tax Commission reports that across the state 83.4% of claimants are over the age of 65. This program appears designed to help the same folks targeted by many of the bills introduced last session. A possible conclusion is that the Circuit Breaker program is doing a good job of reaching that target audience, and that perhaps promoting a proven program to a larger group would be more successful than starting a new program aimed at the same folks.
- **Local Option Taxes:** IAR also reviewed proposed legislation from **Senator John Goedde (R-Coeur d'Alene)** which would have allowed local governments to impose a local option sales tax for the purpose of property tax relief. IAR's statement of policy regarding local option taxes states: "We support the concept of local option taxation for cities and counties with appropriate safeguards to include but not be limited to aggregate countywide caps, specific purpose provisions, sunset clauses and voter approval." IAR has not taken a position of support for this concept, but would not be opposed to continued discussions regarding this option.

IAR also offers the following areas of interest for general discussion and possible action although we have not specifically taken a position for or against any of these considerations.

- **Local Government Spending:** State and federal government both place significant financial burdens on local resources through mandated policies. Are there areas where the State of Idaho should step in to relieve some of this burden, thereby reducing the financial strain on local governments? Could this help ease the property tax burden at the local level?

- **Local Levy Rates:** There appear to be wide variations in levy rates across the state which has created pockets of high taxation. It appears that any discussion about property taxes should include an analysis of the taxing rates of local jurisdictions, including why and how they vary.
- **Private Sector Solutions:** Products already exist in the private sector to help alleviate the pressure on homeowners. For example a homeowner who has realized substantial gains in valuation, and is concerned about the affordability of higher taxes, can tap that wealth via a reverse mortgage. These types of products should also be explored. If the private sector is providing a solution perhaps more education is necessary.
- **Land Use Policy:** It is apparent in many areas of the state that the growth in valuations may be attributable to local land use policies – in some cases creating an artificial lack of supply in available land. It may be the case that the best way to stabilize the growth in land valuations is to allow for larger areas of impact, higher density development, and a quicker application approval process so that more building lots are available at a faster rate.
- **New Construction:** As stated above with regard to HB 279, the concept of changing the way new construction is treated with respect to the current 3% cap probably deserves more discussion. IAR did not take a position on HB 279, but will review the issue further this interim.

The following issues have been brought to our attention regarding property taxes as well; IAR does not currently advocate a position on either of these issues.

- **County Taxes:** In some states, when a parcel of land is annexed from a county into a city, the owner of the parcel ceases to pay taxes to the county (or pays only a percentage of what they used to pay). In Idaho when a parcel is annexed, the owner continues to pay the same amount to the county. Theoretically, once a parcel is annexed the county is only providing a portion of the services previously provided to the owner of the parcel, and the taxes paid to the county could be reduced. According to the Tax Commission, county taxes in Idaho amounted to $263.4 million, while city taxes were $246 million. At the same time the U.S. Census Bureau statistics for the 2000 census show that 64% of the Idaho households are located in urban areas. A discussion regarding local responsibility for providing services, and possible education of the public regarding what services they are receiving, would seem to be beneficial to any discussion of property taxes.
- **Exclusion of Schools:** Should the school property tax system be regulated in substantially the same way as local property taxes? School property taxes are structurally different than local taxes in that they are not limited by the 3% growth rate.

In addition to these items, a discussion of the historical distribution of property tax payments in Idaho would certainly appear to be in order as part of the overall discussion of the Task Force. For example, while it is true that a greater percentage of the overall property tax burden is being carried by residential payers (61.6% in 2004), it is also important to note that with increasing local budgets this does not necessarily translate into a reduction of taxes (in real dollars) for other sectors, but in fact reflects substantial population growth without corresponding growth in commercial infrastructure. It may also be the case that the growth in the number of folks working from home (due to expansion of high-speed internet access and connectivity) is causing a shift away from the need for the more traditional “bricks and mortar” type of commercial property we are familiar with.

Again, the Idaho Association of REALTORS® appreciates the opportunity to provide comments to your Task Force, and remains willing to participate in whatever capacity you would like. Please feel free to call me at any time regarding this issue.

Formulas used to calculate the NAR Housing Affordability Index (HAI)

Median Price Existing Single-Family Home – Comes from the existing home sales monthly survey conducted by the National Association of REALTORS®

Monthly Mortgage Rate – NAR uses the "effective mortgage rate" for preoccupied homes in the HAI calculations. The effective mortgage rate is reported by the Federal Housing Finance Board on a monthly basis. The effective mortgage rate reflects the amortization of initial fees and charges.

Principle & Interest Payment – Monthly Payment

Formula: MEDPRICE*.8*(IR/12)*((1+(IR/12))^360/(((1+(IR/12))^360)-1)

Median as % of Income = Necessary monthly income

Formula: ((PMT*12)/MEDINC)*100

Median Family Income – NAR uses Income data from the Census Bureau Decennial Survey. Census income data is not available for the upcoming year. Thus, NAR analysts project income levels for the upcoming year that are used in HAI calculations. Annual revisions are made to the HAI series when "actual" income data is released.

Qualifying Income – Income necessary to qualify for a loan for the median priced home

Formula: PMT * 4 * 12

Housing Affordability Index(Composite)- Measures the degree to which a typical family can afford the monthly mortgage payments on a typical home.

Formula: (MEDINC/QINC)*100

Key:
IR = Interest Rate
MEDPRICE = Median price of existing single-family home sale
PMT= Monthly payment
MEDINC = Median Family Income
MINC = Necessary Monthly Income
QINC = Qualifying Income